



The European Systemic Risk Board (ESRB)

A new tool for pan-European
macro-prudential oversight

Benjamin Angel
Directorate 'Macrofinancial stability'
European Commission



How is the ESRB structured?

An independent body without a legal personality

Architecture

- General Board (GB): the decision-maker
Plenary meetings at least quarterly + extraordinary meetings
Simple majority rule (2/3 quorum but exceptions)
- Steering Committee: assists and prepares GB's work
- Secretariat: analytical, statistical, administrative, logistical support – ensured by the European Central Bank
- Advisory Technical Committee: advice and assistance

Chair and Vice-Chair of the General Board

Elected for 5 years by and from members of the GB *also members of the General Council of the ECB*



How is the ESRB structured?

➡ Gathering Macro and Micro-prudential supervisors on the **General Board**

GB Members with voting rights (one person-one vote)

The President and the Vice-President of the ECB

The Governors of the 27 national central banks

A member of the European Commission

The Chairperson of each European Supervisory Authority (ESA):
Banking, Insurance and Occupational Pensions, Securities and
Markets

GB Members without voting rights

A representative of the national supervisory authority per
member state (can differ from one meeting to another
according to issues at stake)

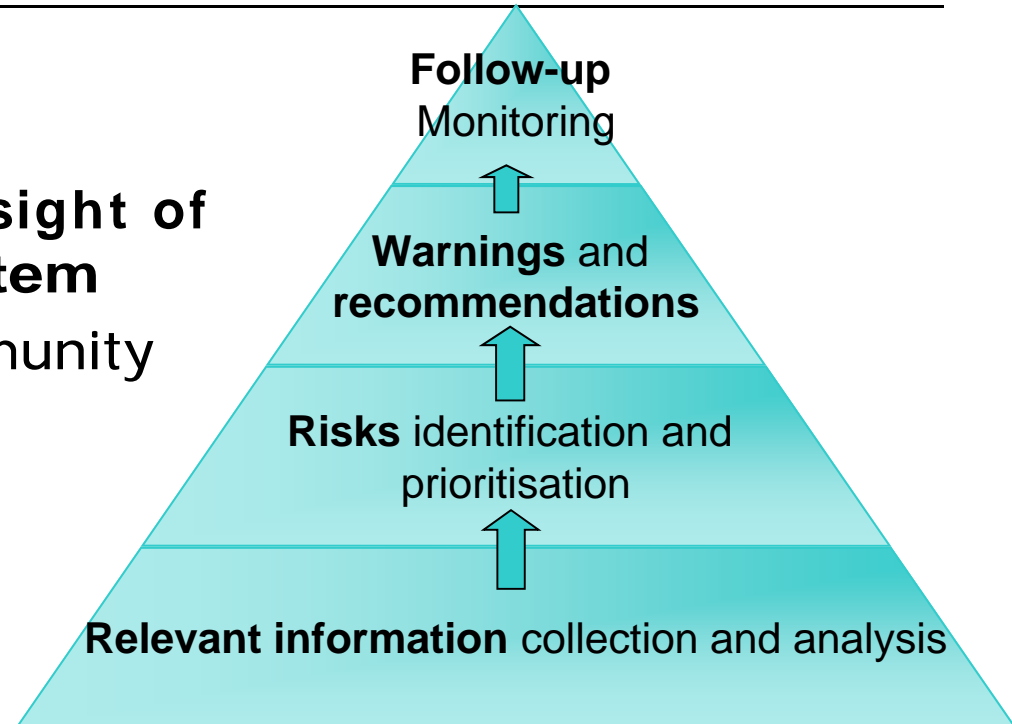
The President of the Economic and Financial Committee

What is the role of the ESRB?

Responsible for
**macro-prudential oversight of
the financial system**
within the whole Community

- Prevention/mitigation of systemic risk
- Smooth functioning of the Internal Market

- Cooperation and coordination:
 - coordination with ESFS
 - cooperation with international institutions (IMF, FSB...)
 - (at least) annual reports to European Parliament and Council





What is the role of the ESRB?

Warnings and recommendations issuance

- Directed to:

Community as a whole or member states individually

European or national supervisory authorities

European Commission

- Channelled through the ECOFIN of the Council

- Specific timeline for policy response

- ESRB can make warnings and recommendations public

Follow-up monitoring

Checks compliance with recommendations: “act or explain” basis

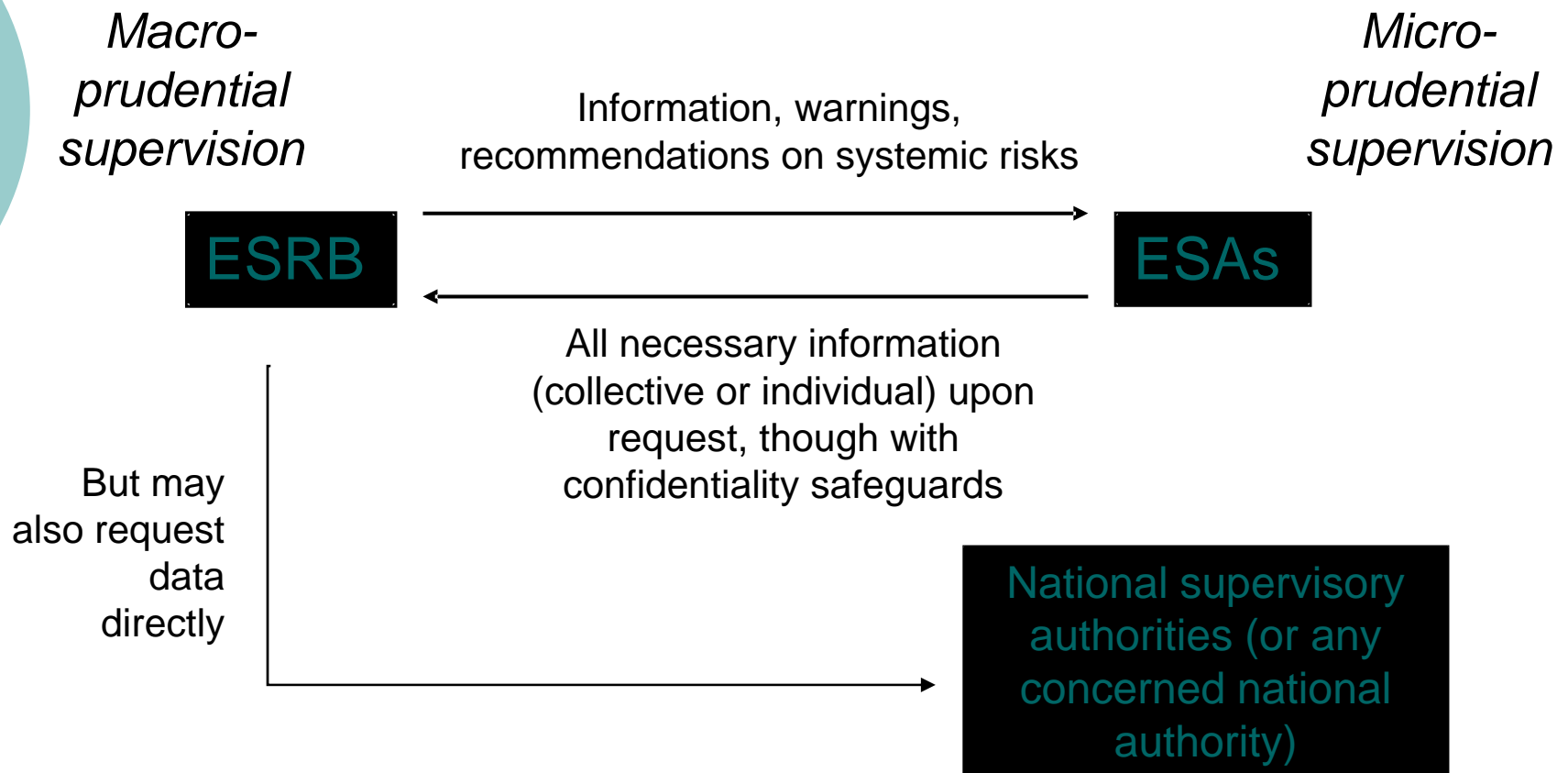


No binding power but a **moral influence** with high-level composition (all EU Central Bank governors and supervisors, Commission) and high-quality analysis

How does it compare with the future US Financial Stability Oversight Council (FSOC)?

	ESRB	FSOC
Comparable missions	<i>Macro-prudential oversight of the financial system in order to prevent or mitigate systemic risks within the financial system, contribute to a smooth functioning of the internal market and ensure a sustainable contribution of the financial sector to economic growth</i> <i>At least quarterly meetings</i>	<i>Identify risks to the financial stability that could arise from failure of large, interconnected bank holding companies, promote market discipline and identify emerging threats to financial stability</i> <i>At least quarterly meetings</i>
Greater relative importance of Central Banks in ESRB: more autonomy from governments	<i>Chair of General Board: should be the ECB President</i> <i>ECB provides Secretariat</i> <i>CB Governors vote in the General Board;</i> <i>Commissioner and EFC President (without voting right) participate as members</i>	<i>Fed is a member</i> <i>Chair: held by Treasury</i>
Size much larger	<i>Around 60 members (32 with voting rights)</i>	<i>10 members (9 with voting rights)</i>
Close voting rules	<i>Simple majority (though Council agreement requires 2/3 majority for recommendations)</i>	<i>Most important decisions by 2/3 majority, rest by simple majority</i>
Comparable tools	<i>Warnings and recommendations (may be made public)</i>	<i>Recommendations</i> <i>Determinations that non-bank companies (including foreign ones) should be supervised by the Fed</i>
Addressees: more “practical” powers for FSOC, while ESRB relies on its “reputational” authority	<i>The EU, EU Member States, national and European supervisory authorities</i>	<i>Congress, the Fed, supervisory agencies, large financial institutions</i>

Which interplay with the European System of Financial Supervisors (ESFS)?



Close cooperation with the European Supervisory Authorities mainly based on information exchanges



Where does the European Commission stand for the discussions?

○ **Calendar** of the co-decision legislative process

Commission submitted a final proposal in Sept 2009

Council agreed on a general approach in Dec 2009

did not diverge significantly from the Commission's

European Parliament (EP) votes on – 4 May (Committee)

– 16 June (plenary session)

➔ Our objective: being ready on 1 January 2011

○ **Issues** and stances on proposed amendments

Concentration of all ESFS bodies in Frankfurt (EP) vs current organisation

Possibility to declare an “emergency situation” (EP): too unclear

Advisory Technical/Scientific Committee should include NCB and supervisors

Where does the European Commission stand on proposed amendments?

<i>Author</i> <i>Topic</i>	<i>Council</i>	<i>European Parliament</i>
Chair of GB	Elected	President of the ECB ⇒ <i>actually simpler (less politically sensitive)</i>
Members of the GB	Can agree on a common rep. per national supervisory authorities ⇒ <i>simpler</i>	Fixed representative of national supervisory authorities per MS ⇒ <i>would favour bank regulators</i> Includes 6 independent members (academics, private sector, trade unions...) ⇒ <i>be better to centre on national banks</i>
Steering Committee	Chair + Vice-Chair of GB + 5 other members from GB and ECB ⇒ <i>preferred</i> + rep. of Commission+ of each ESA + President EFC	Chair + Vice-Chair of GB + 3 other members from GB and ECB + rep. of Commission+ of each ESA + President EFC + 3 from the 6 independent members of GB
Voting rules of GB	Simple majority with 2/3 quorum (can be overcome)	"GB shall strive for consensus" ⇒ <i>would slow down considerably</i>
Involvement of the EP	∅	Hearings, follow-up of recommendations ⇒ <i>independence and confidentiality issues</i>



Thank you for your attention